

Message Text

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PAGE 01 JAKART 02105 171144Z

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ACTION EA-06

INFO OCT-01 ISO-00 EB-03 SSO-00 EAE-00 /010 W

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC IMMEDIATE 0000

C O N F I D E N T I A L JAKARTA 2105

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E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: GOI-CALTEX DISCUSSIONS

REFS: (A) JAKARTA 2107, (B) JAKARTA 2059, (C) STATE 037530

1. SUMMARY: SITUATION REGARDING CALTEX AND GOI DISCUSSIONS REMAINS FLUID AND UNSETTLED. TALKS BROKE OFF SATURDAY, FEB 14, FOLLOWING CALTEX'S LAST MINUTE SUBMISSION OF REVISED PROPOSAL. GHIEF GOI NEGOTIATOR WIJARSO SEEMS INCLINED TO SEEK COMPROMISE SETTLEMENT BUT HE IS CLEARLY DISTURBED BY PRESS LEAK OF KEY ELEMENTS CALTEX POSITION WHICH HE SUSPECTS SOMEONE IN COMPANY PLANTED. ALTHOUGH SOCAL-TEXACO REPS ARE EXPECTED BACK IN TWO WEEKS TO RESUME DISCUSSIONS, POSSIBILITY OF UNILATERAL DECREE BY GOI ON CHANGE IN PROFIT SPLIT CANNOT BE RULED OUT. ABSENCE OF GENERAL IBNU AND EMERGENCE OF NEW CAST OF PLAYERS --TECHNOCRATS-- HAVE BEEN SIGNIFICANT FACTORS IN NEGOTIATIONS. EXPATRIATE ADVISERS HAVE URGED GOI SEEK OUTSIDE EXPERT ADVICE. END SUMMARY

2. SITUATION HERE REGARDING CURRENT GOI EFFORTS TO REDUCE CALTEX PER BARREL TAKE REMAINS FLUID AND UNSETTLED. FOLLOWING MY MEETING THURSDAY WITH SOCAL AND TEXACO REPS (REF A), I CALLED ON MINES MINISTER SADLI FOR INFORMAL EXCHANGE OF VIEWS ON CALTEX PROBLEM. I EXPLAINED OUR POSITION WAS ONE OF BEING ON SIDELINES BUT THAT I HOPED BOTH SIDES COULD RESOLVE THIS ISSUE TO THEIR MUTUAL SATISFACTION. SADLI SAID HE REALIZED CALTEX WAS CONCERNED BY APPEARANCE OF UNILATERAL DECISION BY GOI. HE EMPHASIZED GOVERNMENT HAD HOPED TO WRAP UP TALKS WITH CALTEX IN DEC.

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BUT THAT COMBINATION OF PRESIDENT SUHARTO'S OPERATION AND

CONVALESCENCE PLUS GEN. IBNU'S FALL FROM GRACE CAUSED DELAY WHICH RAN INTO JANUARY. IN RESPONSE TO MY QUESTION ABOUT CALTEX'S POSITION, YADLI STRESSED THAT CALTEX PROFITS FAR EXCEED THEIR INVESTMENTS IN INDONESIA. CONTRARY TO POPULAR BELIEF, CALTEX WAS ONLY PUTTING IN SOMETHING ON ORDER OF \$50-100 MILLION A YEAR WHILE TAKING OUT \$600-700 MILLION ANNUALLY IN PROFITS. (COMMENT: COMPANY REP TOLD US CALTEX PLANNED TO SPEND OVER \$200 MILLION IN 1976. END COMMENT.) WITH REGARD TO CALTEX DIFFICULTIES, HE SAID GOI WAS WILLING TO BE FLEXIBLE AND PRAGMATIC ON CALTEX'S ARGUMENT THAT INCREASE IN GOVERNMENT SHARE WOULD FORCE CUTBACK IN LIFTING OF 50-60 MILLION BARRELS/YEAR "MARGINAL" OIL. AS EXAMPLE, PERTAMINA COULD OFFER TRANSPORTATION SUBSIDY TO HELP CALTEX MOVE ITS OIL TO EAST COAST MARKETS. SADLI ALSO TOLD ME THAT \$1.00/BARREL FIGURE, WHICH HAD NOT APPEARED PUBLICALLY, WAS PART OF PRESIDENT'S NEGOTIATING INSTRUCTIONS CONFIRMED IN WRITTEN MINUTES OF JANUARY 7 CABINET MEETING. HE SAID MATTER HAS GONE TOO FAR FOR PRESIDENT TO REVERSE HIMSELF ON THIS \$1.00/BARREL DECISION AND "EAT HIS WORDS." HE SHOWED US OFFICIAL MINUTES.

3. SOCAL-TEXACO REPS BOUCKE AND MCCALL LEFT JAKARTA SATURDAY AFTERNOON AFTER MEETING WITH OIL AND GAS DIRECTOR, WIJARSO, CHIEF GOI NEGOTIATOR, FOR FINAL SESSION. BOUCKE TOLD WIJARSO CALTEX COULD NOT AGREE TO SIGN PIECE OF PAPER WITH GOI ON FLAT \$1.00/BARREL CUT SINCE "IT WOULD BE LIKE SIGNING OUR DEATH WARRANT." AFTER MUCH PROBING WIJARSO ELICITED FROM BOUCKE REVISED PROPOSAL WHICH BOUCKE STRESSED HAD NOT BEEN CLEARED WITH RESPECTIVE HOME OFFICES. IN ESSENCE, CALTEX, IN ADDITION TO ITS PREVIOUS PROPOSAL (REF B), WOULD CONSENT TO CUT ON ITS PROFITABLE EASTERN HEMISPHERE (JAPAN) EXPORTS OF ABOUT \$.92 PER BARREL WHILE PROFIT SPLIT ON "MARGINAL" EXPORTS TO WESTERN HEMISPHERE MARKETS WOULD REMAIN UNCHANGED. WIJARSO, WHILE INDICATING THAT HIS INSTRUCTIONS FROM THE PRESIDENT WERE QUITE SPECIFIC, SAID HE WOULD TAKE CALTEX'S PROPOSAL TO THE PRESIDENT ON MONDAY MORNING TO SEE IF ANY COMPROMISE WAS POSSIBLE. BOUCKE AND MCCALL TOLD WIJARSO THEY WOULD RETURN IN ABOUT TWO WEEKS WITH ADDITIONAL GUIDANCE FROM HOME OFFICES.

4. ON MONDAY AFTERNOON, PETROLEUM OFFICER AND I SPOKE INFORMALLY WITH WIJARSO ABOUT LATEST DEVELOPMENTS IN DISCUSSIONS. WIJARSO
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HAD PREVIOUSLY SUGGESTED THAT MEETING WITH US MIGHT BE USEFUL IN HELPING TO SEPARATE "FACT FROM FICTION" IN THIS MATTER. HE TOLD US HE WAS INITIALLY DISTURBED THAT HE HAD NOT BEEN BROUGHT INTO PICTURE ABOUT PURPOSE OF BOUCKE AND MCCALL VISIT. HE MENTIONED THAT HE HAD INFORMED CALTEX BOARD CHAIRMAN JULIUS TAHIJA, JANUARY 30 THAT "DECISION HAD BEEN MADE;" HENCE, HE EXPECTED PURPOSE OF THEIR VISIT WAS TO DISCUSS MECHANISM BY WHICH PRESIDENT'S DECISION COULD BE IMPLEMENTED. HE WAS, THEREFORE,

SURPRISED TO LEARN THAT REPS WERE NEGOTIATING WITH MINISTER NATIONAL ECONOMY WIDJOLO AND BYPASSING DEPARTMENT OF MINES. WIJARSO SAID HE TOOK ADVANTAGE OF THEIR VISIT FEB 14, WHICH WAS BILLED AS COURTESY CALL, TO FIND OUT WHAT CALTEX WAS REALLY UP TO.

5. WIJARSO CONFIRMED THAT CALTEX'S REVISED PROPOSAL REPRESENTED FAVORABLE ATTEMPT BY COMPANY TO NARROW GAP WITH GOI. HE SAID KEY ELEMENT FROM HIS VANTAGE POINT WAS NECESSITY OF ARRANGING COMPROMISE SOLUTION WHICH COULD "SAVE FACE POLITICALLY" FOR THE GOVERNMENT. HE IMPLIED THAT CALTEX PROPOSAL COULD FORM BASIS OF COMPROMISE NEGOTIATED SETTLEMENT. HOWEVER, THAT AFTERNOON, LOCAL INDONESIAN DAILY SINAR HARAPAN PUBLISHED ESSENTIAL ELEMENTS OF CALTEX'S REVISED POSITION. WIJARSO SAID THIS PUBLIC DISCLOSURE MADE IT NEXT TO IMPOSSIBLE FOR GOI TO NEGOTIATE FACE-SAVING SOLUTION SINCE DETAILS WOULD BE KNOWN BY EVERYONE. IMPLICATION WAS DEFINITE THAT WIJARSO STRONGLY SUSPECTED THAT SOMEONE FROM CALTEX HAD LEAKED THESE ITEMS AND HE WONDERED ALOUD HOW SO-CALLED LAST MINUTE PROPOSAL COULD APPEAR IN PRESS UNLESS SOMEONE FROM CALTEX HAD PLANTED IT IN ADVANCE. HE SAID THIS DEVELOPMENT NOW MADE IT DOUBLY DIFFICULT FOR GOI TO BACK OFF FROM ITS EARLIER PUBLIC STATEMENTS.

6. IN RESPONSE TO MY QUESTION ABOUT WHAT HAPPENS NEXT, WIJARSO SAID GOVERNMENT PROBABLY WILL GO AHEAD AND ISSUE UNILATERAL DECREE ANNOUNCING \$1.00 PER BARREL INCREASE IN TAKE, RETROACTIVE TO JANUARY 1, 1976. AT FIRST, HE WAS EMPHATIC THAT GOI HAD NO CHOICE BUT TO DO THIS, BUT TOWARD END OF OUR MEETING HE SOFTENED HIS STAND AND INDICATED THAT HE WOULD BE WILLING TO MEET AGAIN WITH COMPANY REPS. HE EMPHASIZED THAT COMPANY WOULD HAVE TO "REPACKAGE" ITS PROPOSAL SINCE BASIC DETAILS OF ITS PREVIOUS OFFER ALREADY KNOWN TO PUBLIC. COMMENT: ALTHOUGH WIJARSO'S REMARKS INDICATE THAT DOOR IS STILL OPEN A LITTLE, WE CANNOT RULE OUT POSSIBILITY

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OF PRESIDENTIAL DECREE BEING HANDED DOWN AT ANY MOMENT. END COMMENT.

7. MEANWHILE, CALTEX STANDING BY AND AWAITING FURTHER GUIDANCE FROM HEADQUARTERS. I PASSED ON TO JULIUS TAHIJA THRUST OF WIJARSO'S CONVERSATION WITH US AND TOLD HIM WIJARSO HAD SUGGESTED THAT I DO SO. COMPANY OFFICIALS HAVE INDICATED THAT CALTEX WOULD CONTINUE OPERATING IF PRICE DECISION WERE MADE UNILATERALLY, BUT THEY SAY LEVEL OF OPERATION WOULD BE GREATLY REDUCED.

8. ONE SIGNIFICANT ASPECT OF THIS AFFAIR HAS BEEN EMERGENCE OF NEW CAST OF PLAYERS --TECHNOCRATS-- AND ABSENCE OF GENERAL IBNU (WHO IS STILL IN U.S.). IT HAS LARGELY BEEN TECHNICAL STAFF AT ECONOMIC PLANNING BOARD, BAPPENAS, (HEAVILY INFLUENCED BY IMF MEMORANDUM) AND NOT PERTAMINA, WHICH HAS DRAFTED PRESIDENT'S

PLICY DECISIONS ON THIS MATTER. RESULT, AS SEEN BY CALTEX, HAS BEEN MUCH LESS FAVORABLE ATTITUDE BY GOI TOWARD COMPANY. GOI'S TOUGHER STANCE ON THIS GO-AROUND IS VIEWED AS ATTEMPT BY SOME TECHNOCRATS TO GET BACK AT IBNU FOR WHAT THEY CONSIDER TO BE HIS OVERALLY GENEROUS ATTITUDE TOWARD FOREIGN OIL COMPANIES. ANOTHER IMPORTANT DEPARTURE FROM PRVIOUS DISCUSSIONS HAS BEEN APPEARANCE IN PRESS OF DETAILS OF NEGOTIATIONS. IN PAST, DISCUSSIONS WERE CLOSED DOOR AFFAIRS AND RESULTS WERE TIGHTLY HELD BY PARTICIPANTS.

9. IN MY MEETINGS WITH BOTH SADLI AND WIJARSO I RAISED QUESTION OF WHETHER GOI ASSUMPTIONS RE CALTEX PROFITS WERE CORRECT IN LIGHT OF CALTEX CLAIMS RE PROBLEMS OF MARKETING MARGINAL CRUDE. WIJARSO ACKNOWLEDGED THAT IMF MEMORANDUM WAS PERHAPS "INCOMPLETE" AND THAT THERE WER FACTORS WHICH SHOULD BE CONTINUED. NEITHER GAVE ANY INDICATION GOI WAS SEEKING OUTSIDE ADVICE. FROM SOURCES CLOSE TO EXPATRIATE ADVISERS AT BAPPENAS, HOWEVER, WE UNDERSTAND THAT THEY HAVE BEEN ADVISING WIDJOJO THAT IMF MEMORANDUM MAY NOT PRESENT WHOLE PICTURE AND THAT GOI SHOULD GET EXPERT OUTSIDE ADVICE BEFORE MAKING DEFINITIVE MOVE. WE ALSO UNDERSTNAD IMF STAFF HERE HAS BEEN DIRECTED GIVE NO MORE ADVICE TO BAPPENAS ON PETROLEUM PRICING MATTERS.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, EXPLORATORY DRILLING, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 FEB 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART02105
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760058-0912
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760244/aaaabmhb.tel
Line Count: 192
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS, EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS, EXDIS
Reference: 76 JAKARTA 2107, 76 JAKARTA 2059, 76 STATE 37530
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAY 2004 by greeneet>; APPROVED <16 SEP 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI-CALTEX DISCUSSIONS
TAGS: ENRG, ID, US, PERTAMINA, CALTEX
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006